

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

TOWN OF SPENCER
OWEN COUNTY, INDIANA

January 1, 2011 to December 31, 2012



FILED
08/21/2013

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Vicki DuBois (Vacant) Cheryl Moke	07-31-09 to 06-24-11 06-25-11 to 06-26-11 06-27-11 to 12-31-15
President of the Town Council	Jon Stantz Cynthia Hyde	01-01-11 to 12-31-11 01-01-12 to 12-31-13
Superintendent of Wastewater Utility	Shelley Edwards (Vacant) John Hodge (Interim) John Hodge	01-01-11 to 07-02-12 07-03-12 to 07-15-12 07-16-12 to 09-26-12 09-27-12 to 12-31-13



STATE OF INDIANA
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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE TOWN OF SPENCER, OWEN COUNTY, INDIANA

Report on the Financial Statement

We have audited the accompanying financial statement of the Town of Spencer (Town), which comprises the financial position and results of operations for the period of January 1, 2011 to December 31, 2012, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As discussed in Note 1 of the financial statement, the Town prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position and results of operations of the Town for the period of January 1, 2011 to December 31, 2012.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the Town for the period of January 1, 2011 to December 31, 2012, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated June 26, 2013, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Accompanying Information

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Town's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records

INDEPENDENT AUDITOR'S REPORT
(Continued)

used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the Town's financial statement. The Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Payables and Receivables, Schedule of Leases and Debt, and Schedule of Capital Assets, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.



Bruce Hartman
State Examiner

June 26, 2013



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE TOWN OF SPENCER, OWEN COUNTY, INDIANA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statement of the Town of Spencer (Town), which comprises the financial position and results of operations for the period of January 1, 2011 to December 31, 2012, and the related notes to the financial statement, and have issued our report thereon dated June 26, 2013, wherein we noted the Town followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1 to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Spencer's Response to Findings

The Town's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Bruce Hartman
State Examiner

June 26, 2013

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FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the Town. The financial statement and notes are presented as intended by the Town.

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TOWN OF SPENCER
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Years Ended December 31, 2011 And 2012

Fund	Cash and Investments 01-01-11	Receipts	Disbursements	Cash and Investments 12-31-11	Receipts	Disbursements	Cash and Investments 12-31-12
General Fund	\$ 736,472	\$ 1,245,571	\$ 1,409,634	\$ 572,409	\$ 1,734,729	\$ 1,877,979	\$ 429,159
Mvh	108,401	85,628	104,077	89,952	73,586	89,868	73,670
Lrs	(12,979)	9,805	14,488	(17,662)	10,011	-	(7,651)
Parking Meter	73,335	18,159	21,380	70,114	18,329	21,417	67,026
If Systems Grant	28	3	28	3	-	3	-
Law Enforcement Continuing Ed	6,673	1,366	2,794	5,245	914	3,201	2,958
Meth Grant	90	-	90	-	-	-	-
Rainy Day	164,089	-	-	164,089	-	-	164,089
K-9 Fund	-	-	-	-	1,232	1,232	-
Levy Excess	193	-	193	-	-	-	-
Ovft General	410,958	308,558	227,818	491,698	3,062	283,343	211,417
Cci	28,518	7,202	-	35,720	5,880	3	41,597
Ccd	93,204	27,578	45,000	75,782	27,081	-	102,863
Edit	550,652	157,315	181,444	526,523	175,345	10,255	691,613
Riverboat	61,526	15,695	-	77,221	13,133	-	90,354
Ovft Equip Replacement	107,826	22,992	-	130,818	25,843	-	156,661
CHRRP Fund	17,313	57,693	70,000	5,006	34,939	39,945	-
Stormwater Maint	-	9,923	-	9,923	1,635	-	11,558
Drug Abuse Education	4,118	1,000	1,401	3,717	-	-	3,717
Bza	2,654	176	355	2,475	24	1,535	964
Public Relations	2,736	800	2,403	1,133	2,200	768	2,565
Police Reserve	3,952	-	258	3,694	108	104	3,698
Safety & Equipment	5,173	5,525	10,698	-	-	-	-
Police Training	7,527	680	40	8,167	1,440	440	9,167
Street Cut Permit	485	1,020	-	1,505	1,249	-	2,754
Street Cut Repairs	22,417	7,854	365	29,906	2,567	162	32,311
Parks & Recreation Operating	8,264	5,000	2,633	10,631	5,000	6,667	8,964
Payroll Fund	41,292	2,444,598	2,485,630	260	547,827	544,202	3,885
Ww	327,105	1,072,924	1,003,589	396,440	1,065,136	1,167,195	294,381
Bond & Interest Cash	171,978	397,413	569,391	-	476,125	476,125	-
Dpreciation Fund Cash	909,279	160,511	-	1,069,790	159,130	-	1,228,920
Customer Deposit Cash	18,739	6,600	5,439	19,900	8,100	4,700	23,300
Debt Reserve	14,412	23,860	38,272	-	35,328	35,328	-
Totals	\$ 3,886,430	\$ 6,095,449	\$ 6,197,420	\$ 3,784,459	\$ 4,429,953	\$ 4,564,472	\$ 3,649,940

The notes to the financial statement are an integral part of this statement.

TOWN OF SPENCER
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Town was established under the laws of the State of Indiana. The Town operates under a Town Council form of government and provides some or all of the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, wastewater, storm water, and urban redevelopment and housing.

The accompanying financial statement presents the financial information for the Town.

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

C. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the Town.

Licenses and permits which include amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the permit. Examples of licenses and permits include: peddler licenses, dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state,

TOWN OF SPENCER
NOTES TO FINANCIAL STATEMENT
(Continued)

local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

Fines and forfeits which include receipts derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations (fines), and for the neglect of official duty and monies derived from confiscating deposits held as performance guarantees (forfeitures).

Utility fees which are comprised mostly of charges for current services.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements include the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

Utility operating expenses which include all outflows for operating the utilities.

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

TOWN OF SPENCER
NOTES TO FINANCIAL STATEMENT
(Continued)

F. Interfund Transfers

The Town may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the Town. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the Town. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the Town in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the Town submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the Town in June and December; however, situations can arise which would delay the distributions. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100 percent of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which normally become delinquent if not paid by May 10 and November 10, respectively.

Note 4. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

TOWN OF SPENCER
NOTES TO FINANCIAL STATEMENT
(Continued)

State statutes authorize the Town to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 5. Risk Management

The Town may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the Town to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

Note 6. Pension Plan

Public Employees' Retirement Fund

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and give the Town authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

INPRS administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

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SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the Town's Annual Report information can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Annual Reports of the Town which are referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was approved by management of the Town. It is presented as intended by the Town.

TOWN OF SPENCER
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011

	General Fund	Mvh	Lrs	Parking Meter	If Systems Grant	Law Enforcement Continuing Ed	Meth Grant	Rainy Day	K-9 Fund
Cash and investments - beginning	\$ 736,472	\$ 108,401	\$ (12,979)	\$ 73,335	\$ 28	\$ 6,673	\$ 90	\$ 164,089	\$ -
Receipts:									
Taxes	500,940	13,568	-	-	-	-	-	-	-
Licenses and permits	20,615	-	-	-	-	-	-	-	-
Intergovernmental	385,205	72,060	9,805	-	-	-	-	-	-
Charges for services	17,210	-	-	17,614	-	459	-	-	-
Fines and forfeits	-	-	-	545	-	907	-	-	-
Utility fees	-	-	-	-	-	-	-	-	-
Other receipts	321,601	-	-	-	3	-	-	-	-
Total receipts	1,245,571	85,628	9,805	18,159	3	1,366	-	-	-
Disbursements:									
Personal services	730,362	104,077	-	20,123	-	-	-	-	-
Supplies	161,655	-	14,488	1,257	-	-	-	-	-
Other services and charges	204,773	-	-	-	-	2,794	-	-	-
Capital outlay	277,844	-	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-	-
Other disbursements	35,000	-	-	-	28	-	90	-	-
Total disbursements	1,409,634	104,077	14,488	21,380	28	2,794	90	-	-
Excess (deficiency) of receipts over disbursements	(164,063)	(18,449)	(4,683)	(3,221)	(25)	(1,428)	(90)	-	-
Cash and investments - ending	\$ 572,409	\$ 89,952	\$ (17,662)	\$ 70,114	\$ 3	\$ 5,245	\$ -	\$ 164,089	\$ -

TOWN OF SPENCER
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

	Levy Excess	Ovft General	Cci	Ccd	Edit	Riverboat	Ovft Equip Replacement	CHRRP Fund	Stormwater Maint
Cash and investments - beginning	\$ 193	\$ 410,958	\$ 28,518	\$ 93,204	\$ 550,652	\$ 61,526	\$ 107,826	\$ 17,313	\$ -
Receipts:									
Taxes	-	279,194	-	27,064	-	-	20,632	-	-
Licenses and permits	-	-	-	-	-	-	-	-	-
Intergovernmental	-	26,390	7,202	514	156,439	15,695	2,360	-	-
Charges for services	-	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-	-
Other receipts	-	2,974	-	-	876	-	-	57,693	9,923
Total receipts	-	308,558	7,202	27,578	157,315	15,695	22,992	57,693	9,923
Disbursements:									
Personal services	-	59,689	-	-	-	-	-	-	-
Supplies	-	17,489	-	-	-	-	-	-	-
Other services and charges	-	88,595	-	-	-	-	-	-	-
Capital outlay	-	4,257	-	45,000	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-	-
Other disbursements	193	57,788	-	-	181,444	-	-	70,000	-
Total disbursements	193	227,818	-	45,000	181,444	-	-	70,000	-
Excess (deficiency) of receipts over disbursements	(193)	80,740	7,202	(17,422)	(24,129)	15,695	22,992	(12,307)	9,923
Cash and investments - ending	\$ -	\$ 491,698	\$ 35,720	\$ 75,782	\$ 526,523	\$ 77,221	\$ 130,818	\$ 5,006	\$ 9,923

TOWN OF SPENCER
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

	Drug Abuse Education	Bza	Public Relations	Police Reserve	Safety & Equipment	Police Training	Street Cut Permit	Street Cut Repairs
Cash and investments - beginning	\$ 4,118	\$ 2,654	\$ 2,736	\$ 3,952	\$ 5,173	\$ 7,527	\$ 485	\$ 22,417
Receipts:								
Taxes	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	680	1,020	-
Intergovernmental	-	-	-	-	-	-	-	-
Charges for services	-	176	-	-	-	-	-	7,854
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Other receipts	1,000	-	800	-	5,525	-	-	-
Total receipts	1,000	176	800	-	5,525	680	1,020	7,854
Disbursements:								
Personal services	-	-	-	-	-	-	-	-
Supplies	-	242	-	258	-	-	-	365
Other services and charges	1,401	113	2,403	-	-	40	-	-
Capital outlay	-	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	10,698	-	-	-
Total disbursements	1,401	355	2,403	258	10,698	40	-	365
Excess (deficiency) of receipts over disbursements	(401)	(179)	(1,603)	(258)	(5,173)	640	1,020	7,489
Cash and investments - ending	\$ 3,717	\$ 2,475	\$ 1,133	\$ 3,694	\$ -	\$ 8,167	\$ 1,505	\$ 29,906

TOWN OF SPENCER
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

	Parks & Recreation Operating	Payroll Fund	Ww	Bond & Interest Cash	Dpreciation Fund Cash	Customer Deposit Cash	Debt Reserve	Totals
Cash and investments - beginning	\$ 8,264	\$ 41,292	\$ 327,105	\$ 171,978	\$ 909,279	\$ 18,739	\$ 14,412	\$ 3,886,430
Receipts:								
Taxes	-	-	-	-	-	-	-	841,398
Licenses and permits	-	-	-	-	-	-	-	22,315
Intergovernmental	-	-	-	-	-	-	-	675,670
Charges for services	-	-	-	-	-	-	-	43,313
Fines and forfeits	-	-	-	-	-	-	-	1,452
Utility fees	-	-	1,070,663	-	-	-	-	1,070,663
Other receipts	5,000	2,444,598	2,261	397,413	160,511	6,600	23,860	3,440,638
Total receipts	5,000	2,444,598	1,072,924	397,413	160,511	6,600	23,860	6,095,449
Disbursements:								
Personal services	-	-	-	-	-	-	-	914,251
Supplies	2,633	-	-	-	-	-	-	198,387
Other services and charges	-	-	-	-	-	-	-	300,119
Capital outlay	-	-	-	-	-	-	-	327,101
Utility operating expenses	-	-	413,084	-	-	-	-	413,084
Other disbursements	-	2,485,630	590,505	569,391	-	5,439	38,272	4,044,478
Total disbursements	2,633	2,485,630	1,003,589	569,391	-	5,439	38,272	6,197,420
Excess (deficiency) of receipts over disbursements	2,367	(41,032)	69,335	(171,978)	160,511	1,161	(14,412)	(101,971)
Cash and investments - ending	\$ 10,631	\$ 260	\$ 396,440	\$ -	\$ 1,069,790	\$ 19,900	\$ -	\$ 3,784,459

TOWN OF SPENCER
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012

	General Fund	Mvh	Lrs	Parking Meter	If Systems Grant	Law Enforcement Continuing Ed	Meth Grant	Rainy Day	K-9 Fund
Cash and investments - beginning	\$ 572,409	\$ 89,952	\$ (17,662)	\$ 70,114	\$ 3	\$ 5,245	\$ -	\$ 164,089	\$ -
Receipts:									
Taxes	559,191	13,629	-	-	-	-	-	-	-
Licenses and permits	18,061	-	-	-	-	405	-	-	-
Intergovernmental	452,016	59,957	10,011	-	-	-	-	-	-
Charges for services	-	-	-	18,083	-	509	-	-	-
Fines and forfeits	-	-	-	246	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-	-
Other receipts	705,461	-	-	-	-	-	-	-	1,232
Total receipts	1,734,729	73,586	10,011	18,329	-	914	-	-	1,232
Disbursements:									
Personal services	727,740	89,868	-	21,228	-	3,177	-	-	1,135
Supplies	155,685	-	-	36	-	-	-	-	57
Other services and charges	195,919	-	-	153	-	-	-	-	40
Capital outlay	789,067	-	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-	-
Other disbursements	9,568	-	-	-	3	24	-	-	-
Total disbursements	1,877,979	89,868	-	21,417	3	3,201	-	-	1,232
Excess (deficiency) of receipts over disbursements	(143,250)	(16,282)	10,011	(3,088)	(3)	(2,287)	-	-	-
Cash and investments - ending	\$ 429,159	\$ 73,670	\$ (7,651)	\$ 67,026	\$ -	\$ 2,958	\$ -	\$ 164,089	\$ -

TOWN OF SPENCER
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Levy Excess	Ovft General	Cci	Ccd	Edit	Riverboat	Ovft Equip Replacement	CHRRP Fund	Stormwater Maint
Cash and investments - beginning	\$ -	\$ 491,698	\$ 35,720	\$ 75,782	\$ 526,523	\$ 77,221	\$ 130,818	\$ 5,006	\$ 9,923
Receipts:									
Taxes	-	-	-	26,423	-	-	21,650	-	-
Licenses and permits	-	-	-	-	-	-	-	-	-
Intergovernmental	-	917	5,880	658	175,345	13,133	4,193	-	-
Charges for services	-	1,071	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-	-
Other receipts	-	1,074	-	-	-	-	-	34,939	1,635
Total receipts	-	3,062	5,880	27,081	175,345	13,133	25,843	34,939	1,635
Disbursements:									
Personal services	-	37,072	-	-	-	-	-	-	-
Supplies	-	68,377	-	-	-	-	-	-	-
Other services and charges	-	65,627	-	-	10,255	-	-	-	-
Capital outlay	-	112,267	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-	-
Other disbursements	-	-	3	-	-	-	-	39,945	-
Total disbursements	-	283,343	3	-	10,255	-	-	39,945	-
Excess (deficiency) of receipts over disbursements	-	(280,281)	5,877	27,081	165,090	13,133	25,843	(5,006)	1,635
Cash and investments - ending	\$ -	\$ 211,417	\$ 41,597	\$ 102,863	\$ 691,613	\$ 90,354	\$ 156,661	\$ -	\$ 11,558

TOWN OF SPENCER
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Drug Abuse Education	Bza	Public Relations	Police Reserve	Safety & Equipment	Police Training	Street Cut Permit	Street Cut Repairs
Cash and investments - beginning	\$ 3,717	\$ 2,475	\$ 1,133	\$ 3,694	\$ -	\$ 8,167	\$ 1,505	\$ 29,906
Receipts:								
Taxes	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	1,440	1,249	-
Intergovernmental	-	-	-	-	-	-	-	-
Charges for services	-	-	-	108	-	-	-	2,567
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Other receipts	-	24	2,200	-	-	-	-	-
Total receipts	-	24	2,200	108	-	1,440	1,249	2,567
Disbursements:								
Personal services	-	-	-	104	-	-	-	-
Supplies	-	-	668	-	-	-	-	162
Other services and charges	-	1,535	100	-	-	440	-	-
Capital outlay	-	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-	-
Total disbursements	-	1,535	768	104	-	440	-	162
Excess (deficiency) of receipts over disbursements	-	(1,511)	1,432	4	-	1,000	1,249	2,405
Cash and investments - ending	\$ 3,717	\$ 964	\$ 2,565	\$ 3,698	\$ -	\$ 9,167	\$ 2,754	\$ 32,311

TOWN OF SPENCER
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Parks & Recreation Operating	Payroll Fund	Ww	Bond & Interest Cash	Dpreciation Fund Cash	Customer Deposit Cash	Debt Reserve	Totals
Cash and investments - beginning	\$ 10,631	\$ 260	\$ 396,440	\$ -	\$ 1,069,790	\$ 19,900	\$ -	\$ 3,784,459
Receipts:								
Taxes	-	-	-	-	-	-	-	620,893
Licenses and permits	-	-	-	-	-	-	-	21,155
Intergovernmental	-	-	-	-	-	-	-	722,110
Charges for services	-	-	-	-	-	-	-	22,338
Fines and forfeits	-	-	-	-	-	-	-	246
Utility fees	-	-	1,060,869	-	-	-	-	1,060,869
Other receipts	5,000	547,827	4,267	476,125	159,130	8,100	35,328	1,982,342
Total receipts	5,000	547,827	1,065,136	476,125	159,130	8,100	35,328	4,429,953
Disbursements:								
Personal services	-	-	-	-	-	-	-	880,324
Supplies	5,384	-	-	-	-	-	-	230,369
Other services and charges	1,283	-	-	-	-	-	-	275,352
Capital outlay	-	-	-	-	-	-	-	901,334
Utility operating expenses	-	-	496,612	-	-	-	-	496,612
Other disbursements	-	544,202	670,583	476,125	-	4,700	35,328	1,780,481
Total disbursements	6,667	544,202	1,167,195	476,125	-	4,700	35,328	4,564,472
Excess (deficiency) of receipts over disbursements	(1,667)	3,625	(102,059)	-	159,130	3,400	-	(134,519)
Cash and investments - ending	\$ 8,964	\$ 3,885	\$ 294,381	\$ -	\$ 1,228,920	\$ 23,300	\$ -	\$ 3,649,940

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TOWN OF SPENCER
 SCHEDULE OF PAYABLES AND RECEIVABLES
 December 31, 2012

Government or Enterprise	Accounts Payable	Accounts Receivable
Governmental activities	\$ -	\$ 37,083
Wastewater	37,083	-
Totals	\$ 37,083	\$ 37,083

TOWN OF SPENCER
SCHEDULE OF LEASES AND DEBT
December 31, 2012

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
Type	Purpose		
Governmental activities:			
Notes and loans payable	2010 Police Car	\$ 7,263	\$ 7,567
Notes and loans payable	2012 Police Car	<u>15,140</u>	<u>7,859</u>
Total governmental activities		<u>22,403</u>	<u>15,426</u>
Wastewater:			
Revenue bonds	2009 Wastewater Bonds	174,337	4,591
Revenue bonds	1997 Wastewater Bonds	714,000	117,353
Revenue bonds	2006 Wastewater Bonds	275,000	19,579
Revenue bonds	2007 Wastewater Bonds	<u>4,012,000</u>	<u>252,348</u>
Total Wastewater		<u>5,175,337</u>	<u>393,871</u>
Totals		<u>\$ 5,197,740</u>	<u>\$ 409,297</u>

TOWN OF SPENCER
 SCHEDULE OF CAPITAL ASSETS
 December 31, 2012

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

	Ending Balance
Governmental activities:	
Land	\$ 307,508
Improvements other than buildings	407,068
Machinery, equipment, and vehicles	59,942
Total governmental activities	774,518
Wastewater:	-
Total Wastewater	-
Total capital assets	\$ 774,518

TOWN OF SPENCER
AUDIT RESULTS AND COMMENTS

PENALTIES, INTEREST, AND OTHER CHARGES

The Town paid penalties, interest, and other charges to the United States Treasury in the amount of \$3,725.76 in 2011 because the Town did not remit payroll tax payments on a timely basis.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OVERDRAWN CASH BALANCE

The financial statement presented in this report includes the following fund with an overdrawn cash balance at December 31, 2012:

<u>Fund</u>	<u>Amount Overdrawn</u>
Lrs	<u>\$ 7,649.87</u>

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SUPPORTING DOCUMENTATION

Supporting documentation for the following disbursements was not made available for audit.

<u>Date</u>	<u>Amount</u>	<u>Payee</u>	<u>Description of Purchase (if any)</u>
03-02-11	\$ 352.00	USPS	Stamps
03-25-11	137.50	Hickam & Lorenz	professional services
07-14-11	<u>224.00</u>	City of Bloomington	Unknown
Total	<u>\$ 713.50</u>		

Due to the lack of supporting information, we could not verify the purpose of the disbursement.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF SPENCER
AUDIT RESULTS AND COMMENTS
(Continued)

INTERNAL CONTROLS

We noted several deficiencies in the internal control system of the Town related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the Town to reduce risks to the achievement of financial reporting objectives. The Town has not separated incompatible activities related to receipts, utility billings and collections, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.
2. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Town's audited financial statements and then determining how those identified risks should be managed. The Town has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.
3. Monitoring of Controls: Effective internal control over financial reporting requires the Town Board to monitor and assess the quality of the Town's system of internal control. The Town Board has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the Town at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the Town has no process to identify or communicate corrective actions to improve controls.
4. The Town did not have a proper system of internal control in place to prevent or detect and correct errors on the Schedule of Expenditures of Federal Awards (SEFA). The Town should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

TO: THE OFFICIALS OF THE TOWN OF SPENCER, OWEN COUNTY, INDIANA

Report on Compliance for Each Major Federal Program

We have audited the Town of Spencer's (Town) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the period of January 1, 2011 to December 31, 2012. The Town's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Town's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the period of January 1, 2011 to December 31, 2012.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

Report on Internal Control Over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the type of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2012-2 to be material weaknesses.

The Town's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The Town's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Bruce Hartman
State Examiner

June 26, 2013

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying note presented were prepared by management of the Town. The schedule and note are presented as intended by the Town.

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TOWN OF SPENCER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended December 31, 2011 and 2012

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-11	Total Federal Awards Expended 12-31-12
<u>Department of Housing and Urban Development</u>					
CDBG - State-Administered CDBG Cluster					
14.228 - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii Stormwater Project	Office of Community and Rural Affairs	14.228	B10DC180001Dr2-09-11	\$ 1,091,676	\$ 206
14.228 - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii Disaster Recovery 1 Grant-Hazard Mitigation Program	Indiana Housing and Community Development Authority	14.228	DR1HB-009-013	-	152,596
14.228 - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii Housing Grant	Indiana Housing and Community Development Authority	14.228	HD-009-005	<u>53,038</u>	<u>-</u>
Total - CDBG - State-Administered CDBG Cluster				<u>1,144,714</u>	<u>152,802</u>
Total - Department of Housing and Urban Development				<u>1,144,714</u>	<u>152,802</u>
<u>Department of Justice</u>					
Public Safety Partnership and Community Policing Grants COPS Hiring Recovery Program	Direct grant	16.710	2009RKWX0350	<u>5,450</u>	<u>34,939</u>
Total - Department of Justice				<u>5,450</u>	<u>34,939</u>
<u>Department of Homeland Security</u>					
Hazard Mitigation Grant Hazard Mitigation Program	Indiana Department of Homeland Security	97.039	FEMA-DR-1766	<u>-</u>	<u>464,888</u>
Total - Department of Homeland Security				<u>-</u>	<u>464,888</u>
Total federal awards expended				<u>\$ 1,150,164</u>	<u>\$ 652,629</u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

TOWN OF SPENCER
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Town of Spencer and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with Indiana Code (IC 5-11-1 et seq.), audits of towns with populations under 5,000 shall be conducted biennially. Such audits shall include both years within the biennial period.

TOWN OF SPENCER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
97.039	CDBG - State-Administered CDBG Cluster Hazard Mitigation Grant

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2012-1 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the Town related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the Town to reduce risks to the achievement of financial reporting objectives. The Town has not separated incompatible activities related to receipts, utility billings and collections, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.

TOWN OF SPENCER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

2. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Town's audited financial statements and then determining how those identified risks should be managed. The Town has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.
3. Monitoring of Controls: Effective internal control over financial reporting requires the Town Board to monitor and assess the quality of the Town's system of internal control. The Town Board has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the Town at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the Town has no process to identify or communicate corrective actions to improve controls.
4. The Town did not have a proper system of internal control in place to prevent or detect and correct errors on the Schedule of Expenditures of Federal Awards (SEFA). The Town should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Section III – Federal Award Findings and Questioned Costs

**FINDING 2012-2 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS:
CASH MANAGEMENT, DAVIS-BACON, MATCHING, AND REPORTING**

Federal Agency: Department of Housing and Urban Development

Federal Program: Community Development Block Grants/State's

Program and Non-Entitlement Grants in Hawaii

CFDA Number: 14.228

Federal Award Number and Year (or Other Identifying Number): BIODC180001Dr2-09-11

Pass-Through Entity: Indiana Housing and Community Development Authority

Management of the Town has not established an effective internal control system related to the grant agreement and some compliance requirements of the grant. This includes the following compliance requirements: cash management, Davis-Bacon, matching, and reporting. The failure to establish an effective internal control system places the Town at risk of compliance with the grant agreement and the noted compliance requirements.

TOWN OF SPENCER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

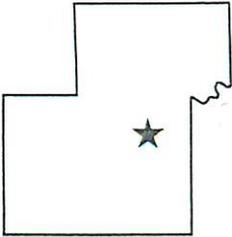
An internal control system should be designed and operate effectively to provide reasonable assurance that material noncompliance with a type of compliance requirement of a federal program will be prevented, detected and corrected, on a timely basis.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Non-compliance of the grant agreement or the applicable compliance requirements could result in the loss of federal funds to the Town.

We recommended the Town Council establish controls related to the grant agreement and compliance requirements noted above.



Town Of Spencer

Founded February 12, 1820

Municipal Building

90 N. West Street , Spencer, Indiana 47460

Phone 812-829-3213 Fax 812-829-1567

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2010-2 – CASH MANAGEMENT

Original SBA Audit Report Number: B39165

Fiscal Year: December 31, 2010

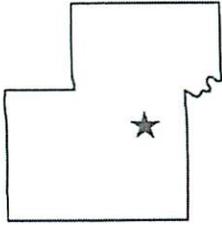
Auditee Contact Person: Cheryl Moke

Title of Contact Person: Clerk-Treasurer

Phone Number: 812-829-3213

Status of Finding: The Auditee was notified of errors concerning Finding 2010-2 in August, 2011. However, prior to this notification, an error occurred in the first part of 2011. In July of 2011, the previous Clerk-Treasurer resigned her position and the current Auditee Contact implemented corrections to this finding by implementing online banking and more timely completion of reconciling bank statements. As of 2012, finding was corrected.

Cheryl Moke



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TOWN OF SPENCER

CORRECTIVE ACTION PLAN

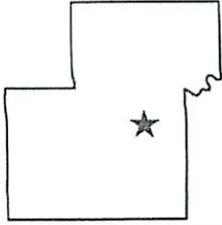
FINDING NO. 2012- 1 INTERNAL CONTROLS

EXPECTED COMPLETION DATE: 12/31/2013:

1. Interface the customer billing and payments module with the general ledger to electronically transfer all transactions and account for all changes in the customer accounts. (This was started on 1/1/2013).
2. Hire and train new employee to further the separation of duties as related to collecting cash, posting cash, and making deposits.
3. Prepare monthly reports for the Town Council including bank reconciliations for review and approval.
4. Ensure that a Schedule of Expenditures of Federal awards is prepared for the period covered for each Federal program. In addition to the expenditures, properly record the award name, Federal agency involved and CFDA number (or other identifying number when this is not available). If Federal awards are received as a subrecipient, include the name and identifying number for the pass-thru agency as well.

Cheryl Moke
Cheryl Moke, Clerk-Treasurer

6/12/2013



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TOWN OF SPENCER

CORRECTIVE ACTION PLAN

FINDING NO. 2012-2 INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO CASH

Federal agency: U.S. Department of Housing and Urban Development

Federal Program: CDBG – States Program

CFDA Number: 14.228

Award Number and Year: DR2-09-005 and DR2-090116

EXPECTED COMPLETION DATE: 8/15/2013

1. Clerk-Treasurer should be familiar with the compliance requirements for each grant awarded.
2. Contract bids should be reviewed to ensure compliance with the prevailing wage rates.
3. Certified payrolls, matching, level of effort should all be documented and records maintained to show compliance.
4. Monitor and document any earmarking requirements for each grant.

Cheryl Moke

Cheryl Moke, Clerk-Treasurer

6/12/2013

TOWN OF SPENCER
EXIT CONFERENCE

The contents of this report were discussed on June 26, 2013, with Cheryl Moke, Clerk-Treasurer, and Jon Stantz, member of the Town Council. The officials concurred with our audit findings.